IDBs: Low-Cost Financing for Solid Waste Disposal and Recycling Businesses

Association of Oregon Recyclers

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What are Industrial Development Bonds (IDBs)?

- A type of municipal bond, private activity bond (PAB)
- For businesses that qualify, IDBs can provide financing at low-cost tax-exempt rates
- Primary restrictions are Federal, but State of Oregon also has some requirements
What are IDBs? (continued)

Two major types:

- Small issue IDBs for manufacturing facilities
- Exempt facilities – solid waste disposal facilities, other types
Parties Involved in an IDB Transaction

- Conduit issuer
- Borrower
- Lender/purchasers of the bonds
- Bond counsel for issuer, attorneys for other parties
- Others, depending on how bonds are sold
Role of Issuer

• Conduit issuer – We issue bonds on behalf of company, but company is responsible for repaying the bonds.

• Federal Internal Revenue Code requires private businesses to go through a public agency in order to access low cost, tax exempt PAB financing.

• Provide allocation of PAB volume cap and required approvals (Declaration of Intent, TEFRA hearing, etc.)
• Guide applicants through the process

• When State is issuer, issuer is State of Oregon, acting by and through its State Treasurer, Oregon Business Development Commission, and Oregon Business Development Department.

• Other issuers of PABs in Oregon – port districts, larger cities – may have different processes
Application and Bond Process

- Preliminary discussions
- Application and tax questionnaire
- Finance Committee approval of project eligibility and Declaration of Intent
- Oregon State Treasury Preliminary Approval
- Bond process and process of raising bank financing occur simultaneously
Application and Bond Process (continued)

- TEFRA hearing and Governor’s TEFRA approval
- Finance Committee approval of bond closing resolution
- Bond closing
Application and Bond Process (continued)

• We’ve changed state requirements to make it easier for solid waste disposal facilities to qualify for bond financing, to take advantage of more flexible 2011 Federal requirements
Timeframe

• From receipt of complete application to Finance Committee approval for eligibility – 3 weeks

• Minimum bond process time to close bonds after Finance Committee approval for eligibility – 2 to 3 months
Timeframe (continued)

• Key point with timing – Once company obtains Declaration of Intent from Finance Committee, it can issue bonds in the future and reimburse itself for costs incurred up to 60 days before date of approval. Project does not need to be on hold until the bonds close.
Issuer Fees

• Application fee - $500

• OBDD bond closing fee (no annual fees) – Regular IDB, ½ of 1% of bond principal amount; Express Bond, ¼ of 1% of bond principal amount

• Oregon State Treasury fee – Express Bond of $5 million or less, $5,000; Express Bond more than $5 million and regular IDBs, $10,000 - $20,000 or more depending on size of bond and number of series
Issuer Fees (continued)

- Bond counsel – Express Bond, Hawkins, Delafield & Wood sliding fee schedule based on size of bond ($15,500 for $2 million bond); regular IDB, $35,000+

- For Express Bond, usual and customary bank fees, in addition to bond-related fees

- For regular IDBs, additional fees charged by other financial services firms (underwriter, trustee, etc.)
Industrial Development Bonds
Basic Structure

Example of Regular IDB Financing Structure

- Underwriter
  - Bond Purchase
  - Sale of Bonds
- Trustee
  - Bond Proceeds
  - Debt Service
- Issuer/Borrower
  - Qualified Project Costs
  - Debt Service
- Municipal Issuer
  - Bonds
- Bond Owners
Industrial Development Bonds
Basic Structure – With Letter of Credit

Example of Regular IDB Financing Structure with Letter of Credit

Underwriter

Bond Owners

Municipal Issuer

Borrower

Trustee

Letter of Credit Bank

Sale of Bonds

Bond Proceeds

Bond Purchase

Bonds

Debt Service

Letter of Credit Draws for Debt Service

Qualified Project Costs

Reimbursement of Letter of Credit Draws
Example of Express Bond Financing Structure

Issuer - Oregon Business Development Commission

Lending Bank
(Underwriter, Bond Owner, Trustee, Loan Servicing)

Bonds
Qualified Project Costs

Borrower

Debt Service
Reimbursement of Letter of Credit Draws

Letter of Credit Bank

Sale of Bonds
Bond Proceeds
Bond Purchase
Debt Service

Letter of Credit Draws for Debt Service
Example of Express Bond Financing Structure

Issuer - Oregon Business Development Commission

Lending Bank
(Underwriter, Bond Owner, Trustee, Loan Servicing)

Borrower

Loan Doc Assignment
Bonds
Qualified Project Costs
Debt Service
Oregon Business Development Commission can issue taxable IDBs, in combination with tax-exempt bonds, to finance portions of total project not eligible for tax-exempt bond financing.
Representative Savings from IDB Financing, Approximate $s

• Express Bond issued for manufacturing company
• Bond amount – $3 million
• Total bond-related costs - $30,000
• Total interest savings over 10 year life of loan/bond - $300,000
Solid Waste Case Study #1

- $1.2 million bond for purchase of trucks, equipment, and tenant improvements for a small, family-owned waste disposal firm to establish a recycling program for its service territory
Solid Waste Case Study #2

$11.0 million bond for purchase of equipment for manufacturer and distributor of building materials to recycle process waste back into its manufacturing process
Other Business Oregon Business Finance Resources

Direct Loans:

• Entrepreneurial Development Loan Fund
• Oregon Business Development Fund

Loan Guarantees:

• Capital Access Program
• Credit Enhancement Fund